

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2008**

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL**

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**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave., Suite 740
Detroit, MI 48202

(313) 873-7500
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Center for Literacy and Creativity
Charter School
Detroit, MI 48219

We have audited the accompanying financial statements of the governmental activities and major fund of the Center for Literacy and Creativity Charter School (the Charter School) as of and for the year ended June 30, 2008, which collectively comprise the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center for Literacy and Creativity Charter School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Charter School as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008 on our consideration of the Charter School's internal control over financial reporting and on our tests its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Alan C. Young; Assoc.

November 13, 2008

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
DETROIT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the Center for Literacy and Creativity Charter School, we offer the readers of the Charter School's financial statements this narrative overview and analysis of the financial activities of the Charter School for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The Charter School's financial status remained stable in spite of reductions in grants from Federal and State sources.
- Enrollment decreased by 4 students (2.7%) to 146.
- The General Fund had \$1,266,914 in revenue, which primarily consisted of the State Aid funding.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center for Literacy and Creativity Charter School's (the Charter School) basic financial statements. The Charter School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Charter School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information, using the accrual basis of accounting, on all of the Charter School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Charter School is improving or deteriorating.

The statement of activities presents information showing how the Charter School's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
DETROIT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008
(Continued)**

The government-wide financial statements outline functions of the Charter School that are principally supported by State Aid and intergovernmental revenues (Federal grants) and operation and management.

The government-wide financial statements can be found on page 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Michigan public school districts utilizing Bulletin 1022. The Charter School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Charter School can be divided into three categories: governmental, proprietary and fiduciary funds. All activities of the Charter School are included in the governmental funds. The Charter School does not maintain any proprietary or fiduciary funds.

The basic governmental fund financial statements can be found on page 10 and 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 to 21 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Charter School, assets exceeded liabilities by \$324,359 as of June 30, 2008.

The Charter School's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
DETROIT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008
(Continued)**

Net Assets for the period ending June 30, 2008

The following shows a summary comparison of the Charter School's Statements of Net Assets for the year ending June 30, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Current Assets	\$390,826	\$378,249
Noncurrent Assets	22,122	27,602
Total Assets	<u>412,948</u>	<u>405,851</u>
Current Liabilities	88,589	90,685
Total Liabilities	<u>88,589</u>	<u>90,685</u>
Net Assets		
Investment in Capital Assets	11,772	17,252
Unreserved Fund Balance	<u>312,587</u>	<u>297,914</u>
Total Net Assets	<u>\$324,359</u>	<u>\$315,166</u>

Change in Net Assets for the periods ending June 30, 2008 and 2007.

REVENUES	<u>2008</u>	<u>2007</u>
General Revenues:		
Operating Grants/Contributions	\$107,736	\$49,582
State Aid-Unrestricted	1,111,747	1,116,608
Other	47,433	130,477
Total Revenues	<u>1,266,916</u>	<u>1,296,667</u>
EXPENSES		
Basic Instruction	561,449	504,983
Support Services	34,327	32,478
Instructional Staff	1,165	800
General Administration	226,259	240,887
School Administration	144,205	125,318
Business Support	35,227	25,700
Board of Education	13,506	10,231
Operation and Management	236,105	257,672
Depreciation Expense	5,480	5,480
Total Expenses	<u>1,257,723</u>	<u>1,203,549</u>
Increase(Decrease) In Net Assets	<u>\$9,193</u>	<u>\$93,118</u>

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
DETROIT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008
(Continued)**

FINANCIAL ANALYSIS OF THE CHARTER SCHOOL'S FUNDS

The strong performance of the Charter School as a whole is reflected in the governmental funds. As the Charter School completed its year, its governmental unrestricted funds reported a General Fund balance of \$237,587.

The General Fund had a surplus for the year of \$14,671. During the year there was a reduction in State Aid revenue by approximately \$ 26,000 for pupil transfer adjustments and Special Headlee Obligation adjustments by the State.

General Fund Revenue

The majority of revenue was derived from state funding (87.75%) with federal funding making up 3.75% of total revenue. There was also local revenue from private grants and fundraising making up 8.5% of total revenue.

Expenditure Allocation

Basic Instruction accounted for \$561,449 (44.64%) of the total expenditure. \$35,492 (2.83%) was spent on student support instructional staff and serving children with special needs. \$226,259 (18.07%) was expended on General Administration. \$144,205 (11.46%) was expended on School Administration. \$48,733 (3.87%) was expended on Business Support and Board of Education. The remaining \$236,105 (18.87%) was spent on Operation and Management.

Comments on Budget Comparisons

- The Charter School's total revenues for the fiscal year ended June 30, 2008 were \$1,266,914.
- General fund budgeted revenue compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$25,497 more than budget or approximately 2.05%.
- The total budgeted expenses compared to actual expenses varied slightly from line item to line item with the ending actual balance being \$100,736 more than budget or approximately 8.75%.
- Basic Instruction, general administration, business support, and operation and management were under budgeted where as rest of the expenditures were over budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the Charter School had \$99,677 invested in capital assets, including buildings improvements, furniture, and computer and other equipment. Total depreciation for the year was \$5,480.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
DETROIT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008
(Continued)**

Economic Factors and Next Year's Budgets and Rates

The Charter School considers many factors when setting the Charter School's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent of the February 2007 student count and 75 percent of the September 2007 student count. The all-inclusive budget was adopted in May 2008 based on an estimate of students that will be enrolled in September 2008. Approximately 91% of total General Fund revenue is from the foundation allowance.

Under State law the Charter School cannot assess property taxes for additional revenue for general operations. As a result, the Charter School is heavily dependent on the State's ability to fund school operations. Based on early enrollment data at the start of the 2008 school year, we anticipate that the fall count will be close to the estimates used in creating the 2008-2009 budget. Once the final student count and related pupil funding are validated, State law requires the Charter School to amend the budget if actual Charter School resources are not sufficient to fund original appropriations.

Since the Charter School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriations to public schools and public school academies. The State periodically holds a revenue estimating conference to estimate revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Deborah Holt Foster, Chief Administrative Officer, at (313) 537-9400 or by mail at 18401 W. McNichols, Detroit, Michigan 48219.

CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets:	
Cash and Investments (Note 3)	\$81,860
Receivables (Note 4)	308,966
Capital Assets - Net (Note 5)	11,772
Security Deposit	10,350
Total Assets	<u>412,948</u>
Liabilities:	
Accounts Payable	20,274
Building Lease Payable (Note 9)	53,302
Accrued Expenses	15,013
Total Liabilities	<u>88,589</u>
Net Assets:	
Investment in Capital Assets	11,772
Unrestricted	312,587
Total Net Assets	<u><u>\$324,359</u></u>

The notes to financial statements are an integral part of this statement.

CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED
JUNE 30, 2008

		<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for</u>	<u>Operating Grants/</u>	<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Services</u>	<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Functions/Programs				
Primary Government-Governmental Activities:				
Basic Instruction	\$561,449	\$0	\$97,158	(\$464,291)
Support Services	34,327	0	10,578	(23,749)
Instructional Staff	1,165	0	0	(1,165)
General Administration	226,259	0	0	(226,259)
School Administration	144,205	0	0	(144,205)
Business Service	35,227	0	0	(35,227)
Board of Education	13,506	0	0	(13,506)
Operation and Management	236,105	0	0	(236,105)
Depreciation (Unallocated)	5,480	0	0	(5,480)
Total Primary Government-Governmental Activities	<u>1,257,723</u>	<u>0</u>	<u>107,736</u>	<u>(1,149,987)</u>
General Revenues:				
State Aid				1,111,747
Other				47,433
		Total General Revenues		<u>1,159,180</u>
Change in Net Assets - Current Year				9,193
Net Assets-Beginning of Year				<u>315,166</u>
Net Assets-End of Year				<u><u>\$324,359</u></u>

The notes to financial statements are an integral part of this statement.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Investments (Note 3)	\$81,860
Receivables (Note 4)	308,966
Security Deposit	<u>10,350</u>
Total Assets	<u>\$401,176</u>
<u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Accounts Payable	\$20,274
Building Lease Payable (Note 9)	53,302
Deferred Revenue	75,000
Accrued Expenses	<u>15,013</u>
Total Liabilities	<u>163,589</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>237,587</u>
Total Fund Balances	<u>237,587</u>
Total Liabilities and Fund Balances	<u>\$401,176</u>

The notes to financial statements are an integral part of this statement.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2008**

	<u>Amount</u>
Fund Balance-Total Governmental Funds	\$237,587
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different because:	
Capital Assets Used in Governmental Activities are not Financial Resources and are not Reported in the Governmental Funds:	
The Cost of Capital Assets is	99,677
Accumulated Depreciation is	<u>(87,905)</u>
	11,772
Balance of Receivables at June 30, 2008 collected after September 1, 2008 and therefore Reported as Deferred Revenue in the Governmental Funds	<u>75,000</u>
Net Assets-Governmental Activities	<u><u>\$324,359</u></u>

The notes to financial statements are an integral part of this statement.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008**

	<u>General Fund</u>
Revenue:	
Local Sources	\$107,734
State Sources	1,111,747
Federal Sources	47,433
Total Revenue	<u>1,266,914</u>
Expenditures:	
Basic Instruction	561,449
Support Services	34,327
Instructional Staff	1,165
General Administration	226,259
School Administration	144,205
Business Support	35,227
Board Education	13,506
Operation and Management	236,105
Total Expenditures	<u>1,252,243</u>
Net Changes in Fund Balances	14,671
Fund Balance-Beginning of Year	<u>222,916</u>
Fund Balance-End of Year	<u><u>\$237,587</u></u>

The notes to financial statements are an integral part of this statement.

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

	<u>Amount</u>
Net Change in Fund Balance-Total Governmental Funds	\$14,671
Amounts Reported for Governmental Activities in the Statement of Activities are Different because:	
Governmental Funds Report Capital Outlay as expenditures; in the Statement of Activities, these Costs are Allocated Over their Estimated Useful Lives as Depreciation:	
Depreciation Expense	(5,480)
Revenue is recorded on the Accrual method in the statement of activities: in the Governmental Funds it is Recorded on the Modified Accrual Method. Certain receivables did not meet the availability criteria under the modified accrual basis of accounting and are shown as Deferred Revenue	<u>2</u>
Change in Net Assets of Governmental Activities	<u><u>\$9,193</u></u>

The notes to financial statements are an integral part of this statement.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Center for Literacy and Creativity Charter School (the Charter School) conform to generally accepted accounting principles as applicable to charter schools. The following is a summary of the significant policies:

Reporting Entity

Center for Literacy and Creativity Charter School is a nonprofit corporation and a public school. The State of Michigan has delegated to the Detroit Board of Education, the responsibility of authorizing the establishment of public school academies and approved the establishment of the Center for Literacy and Creativity Charter School and the Charter School was established pursuant to the Michigan School Code of 1976 ("Code"), as amended by Act No. 362 of the Public Acts of 1993, being Part 6A, Sections 380.501 to 380.507 of the Michigan Compiled Laws, and Act No. 416 of the Public Acts of 1994, being Part 6B, Sections 380.511 and 380.518 of the Michigan Compiled Laws.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Charter School. Based on application of the criteria, the entity does not contain component units.

School-wide and Fund Financial Statements

The school-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the general fund. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Charter School's school-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

The Charter School does not have any funds other than the General Fund.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The School Financial Statements - The school-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the Charter School receives cash.

General Fund

The Charter School's only fund is the General Fund. This fund is used to account for all operational activities of the Charter School. The General Fund includes the current operating expenditures of the Charter School. Revenues are derived primarily from the State of Michigan.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Receivables are shown net of an allowance for uncollectible amounts. The Charter School considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded.

Capital Assets – Capital assets, which include land, buildings and equipment, are reported in the school-wide financial statements. Capital assets are defined by the Charter School as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Charter School does not have infrastructure-type assets.

Building Improvements, furniture and equipment are depreciated using the straight-line method over the following useful lives:

Building Improvements	10 years
Furniture and Other Equipment	5-7 years

Long-term Obligations – Center for Literacy and Creativity Charter School does not have any long- term obligations.

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Charter School had no fund balance designations at June 30, 2008.

Use of Estimates – The presentation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comparative Data – Comparative data is not included in the Charter School's financial statements.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General, Special Revenue, and Debt Service Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund function and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the object level. State law requires the Charter School to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Charter School incurred expenditures in the General Fund, which were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
Basic Instruction	\$463,143	\$561,449
General Administration	195,676	226,259
Business Support	16,500	35,227
Operation and Management	203,830	236,105

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Charter School's opinion, any disallowed claims will not have a material effect on the financial statements as of and for the year June 30, 2008.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

3) DEPOSITS AND INVESTMENTS

State statutes and the Charter School's investment policy authorize the Charter School to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Charter School is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Charter School's deposits are in accordance with statutory authority.

The Charter School has designated two banks for the deposit of its funds.

The investment policy adopted by the Board has authorized investments as listed in the State statutory authority as listed above.

The Charter School's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Charter School's deposits may not be returned to it. The Charter School's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Charter School's deposits for custodial credit risk. At year end, the Charter School deposit balance of \$83,933 was fully covered by federal depository insurance. The Charter School evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Charter School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Charter School's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law. The Charter School does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Charter School's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

3) DEPOSITS AND INVESTMENTS – (Continued)

Interest Rate Risk (Continued)

The Charter School's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Charter School's cash requirements.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Charter School's investment policy does not further limit its investment choices. The Charter School held no such investments at June 30, 2008.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the Charter School's policy prohibit investment in foreign currency.

4) RECEIVABLES AND DEFERRED REVENUE

Receivables as of year-end for the Charter School includes due from governmental units (State of Michigan & Federal Government) and local units of \$308,966 as of June 30, 2008.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, Center for Literacy and Creativity Charter School had \$75,000 included as deferred revenue. This amount did not meet the availability criteria for revenue within the general fund.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

5) CAPITAL ASSETS

Capital assets activity of the Charter School's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital Assets Being Depreciated:				
Building and Building Improvements	\$29,468	\$0	\$0	\$29,468
Furniture and Equipment	70,209	0	0	70,209
Subtotal	<u>99,677</u>	<u>0</u>	<u>0</u>	<u>99,677</u>
Accumulated Depreciation:				
Building and Building Improvements	18,120	2,947	0	21,067
Furniture and Equipment	64,305	2,533	0	66,838
Subtotal	<u>82,425</u>	<u>5,480</u>	<u>0</u>	<u>87,905</u>
Net Governmental Capital Assets	<u>\$17,252</u>	<u>(\$5,480)</u>	<u>\$0</u>	<u>\$11,772</u>

6) MANAGEMENT COMPANY AGREEMENT

The Charter School contracts with a management company - Peak Performance. Peak Performance provides personnel and various other services for which they are reimbursed by the Charter School. Peak Performance is responsible and accountable to the Board for the administration, operation and performance of the Charter School.

Per the Charter School's contract with Peak Performance, the Charter School shall pay Peak Performance an annual fee equal to 8% of the Charter School's state aid revenue. Peak Performance received \$82,860 in management fees for the year ended June 30, 2008.

7) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Charter School currently does not participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Charter School. Currently, the Charter School has a 401K Profit sharing plan managed by Solomon Smith Barney.

Post employment Benefits – Currently, the Charter School does not offer any post employment benefits.

**CENTER FOR LITERACY AND CREATIVITY
CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

8) CONTINGENT LIABILITIES

The Charter School participates in various federal grant programs that are subject to monitoring and audit by grantor agencies. Any costs deemed by the grantor to be unallowable may constitute a liability to the Charter School. Management believes that any potentially disallowed amounts, if any, would be immaterial.

9) OPERATING LEASE

The Charter School leases its premises from the 18401 W. 6 Mile Road LLC (the Landlord), for a term of four years and four months from April 1, 2004 and terminating on July 31, 2008 at annual rent of \$109,200 payable in monthly installments of \$9,100. Also additional rent is payable in the sum of \$3,400 for costs incurred by Landlord in providing utilities and insurance for the leased property. At the year end the Charter School owed to the Landlord a sum of \$53,302.

REQUIRED SUPPLEMENTAL INFORMATION

**CENTER FOR LITERACY AND CREATIVITY CHARTER SCHOOL
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenue:				
Local Sources	\$4,000	\$4,000	\$107,734	\$103,734
State Sources	1,112,336	1,112,336	1,111,747	(589)
Federal Sources	125,081	125,081	47,433	(77,648)
Total Revenue	<u>1,241,417</u>	<u>1,241,417</u>	<u>1,266,914</u>	<u>25,497</u>
Expenditures:				
Basic Instruction	463,143	463,143	561,449	(98,306)
Support Services	78,750	78,750	34,327	44,423
Instructional Staff	19,000	19,000	1,165	17,835
General Administration	195,676	195,676	226,259	(30,583)
School Administration	153,193	153,193	144,205	8,988
Business Support	16,500	16,500	35,227	(18,727)
Board of Education	21,415	21,415	13,506	7,909
Operation and Management	203,830	203,830	236,105	(32,275)
Total Expenditures	<u>1,151,507</u>	<u>1,151,507</u>	<u>1,252,243</u>	<u>(100,736)</u>
 Net Changes in Fund Balances	 89,910	 89,910	 14,671	 (75,239)
Fund Balances-July 1, 2007	<u>222,916</u>	<u>222,916</u>	<u>222,916</u>	<u>0</u>
Fund Balances-June 30, 2008	<u><u>\$312,826</u></u>	<u><u>\$312,826</u></u>	<u><u>\$237,587</u></u>	<u><u>(\$75,239)</u></u>

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave., Ste 740
Detroit, MI 48202

(313) 873-7500
(313) 873-7502 (Fax)
www.alancyoung.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of the
Center for Literacy and Creativity
Charter School
Detroit, MI 48219

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of Center for Literacy and Creativity Charter School as of and for the year ended June 30, 2008, which collectively comprise Center for Literacy and Creativity Charter School's basic financial statements and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We have identified the deficiencies we consider to be significant deficiencies in a separate correspondence dated November 13, 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies in internal control over financial reporting that we consider to be a material weakness are reported in a separate correspondence dated November 13, 2008.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards
(Continued)**

Compliance

As part of obtaining reasonable assurance about whether Center for Literacy and Creativity Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Charter School in a separate letter dated November 13, 2008.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young; Assoc.

November 13, 2008